



**CalPERS Diversity Outreach Program**

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December 15, 2010

**AGENDA ITEM 16**

**TO: CalPERS Board of Administration**

- I. SUBJECT:** Diversity Update
- II. PROGRAM:** Diversity Outreach Program, Investment Office, and Legal Office
- III. RECOMMENDATION:** Information Item
- IV. ANALYSIS:**

The purpose of this agenda item is to provide an overview and current status of the Diversity Outreach Program and the Investment and Legal Office's diversity efforts.

**Background**

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that calls for the broadest possible pool of talent, experience, and perspective. The CalPERS Board of Administration acknowledged this by including diversity as an element in our Strategic Plan.

## **Diversity Outreach Program - Internal Operations**

### ***2010 Enterprise Diversity Pulse Survey***

In 2008, the Diversity Outreach Program (CDOP) conducted an enterprise diversity and inclusion awareness survey for CalPERS employees. This survey provided valuable information that was used to help customize the most effective diversity strategy for CalPERS. The survey collected diversity and inclusion awareness data on a variety of issues and programs, including:

- understanding and commitment to diversity,
- fair people processes, and
- inclusion.

The survey also established a baseline for monitoring CalPERS movement toward increased diversity and inclusion awareness. Based on an analysis of the 2008 survey results, the CalPERS diversity and inclusion awareness baseline was established at 60 percent.

Since then, CDOP has made significant strides in addressing diversity and inclusion, especially in recent years. Our efforts internally have been successful in ensuring compliance with existing statutes and regulations, as well as providing opportunities to staff in understanding the importance of our efforts and the Board's commitment to diversity by including diversity and inclusion components into our New Employee Orientation, as well as in our career development and leadership programs.

Activities have expanded to include, staff diversity and inclusion training, staff forums, educational Webinars, and cultural and disability awareness events.

In November, CDOP conducted an online 2010 Enterprise Diversity Pulse Survey. The purpose of the 2010 Enterprise Diversity Pulse Survey is to achieve an initiative set forth in the 2010-11 CalPERS Business Plan, Enterprise Priority 3.2:

- Increase overall employee diversity awareness by 5 percent over the 2008 diversity assessment survey baseline (December 2010)
- Increase leadership commitment scores by 5 percent over the 2008 diversity assessment survey baseline (December 2010)

CDOP expects to have a written report, including an executive summary analyzing the 2010 pulse survey results by December 30, 2010.

### ***Society for Human Resource Management – Diversity Taskforce***

CalPERS Chief Diversity Officer was selected by the Society of Human Resource Management (SHRM) to help lead efforts to create a Standards and Measures and Metrics for Diversity and Inclusion on a national taskforce.

The American National Standards Institute (ANSI) selected SHRM as the exclusive standards developing organization for diversity and inclusion. ANSI is the authorized agent for the U.S. government for coordinating standards development for various professions. The taskforce goal is to develop 13 national-level Diversity and Inclusion operating standards.

The task force is comprised of 100 practicing diversity and inclusion professionals (from across the nation) working together to develop diversity and inclusion organizational standards. The projected timeline for this project is 18 to 24 months. Following is a short list of organizations involved in the Diversity and Inclusion Organizational Standards Development:

- Denver Department of Safety
- AARP
- Weyerhaeuser
- County of Los Angeles, Public Works
- State Bar of Arizona
- Motorola
- University of Mary Hardin-Baylor
- Social Justice Consultancy
- Eli Lilly and Company
- Massachusetts Bay Transportation Authority
- Kaiser Permanente
- U.S. Equal Employment Opportunity Commission
- General Dynamics
- Microsoft China R&D
- Hospital Humana, Inc
- Chevron Corp

### ***2010-11 CalPERS Commitment to Diversity Report***

Staff from CDOP, Office of Public Affairs, Human Resource Services Division, the Investment Office, and the Office of Governmental Affairs is currently working on the *2010-11 CalPERS Commitment to Diversity Report*. This annual report highlights CalPERS ongoing diversity and inclusion strategies that reflect and benefit our workforce, workplace, and marketplace. Distribution of the Report is scheduled for early next quarter.

### ***CalPERS Business Connection (CBC)***

This past quarter, CBC staff reached an estimated 1,000 Small Business (SB) and Disabled Veteran Business Enterprise (DVBE) vendors and other interested entities through direct participation in two major outreach events:

- 12<sup>th</sup> annual Paths to Partnership Regional Forum and Collaboration Conference.
- 3<sup>rd</sup> Annual Sacramento Regional Connecting Point Conference.

### ***CBC SB/DVBE Vendor Database***

CBC Staff is currently building a SB/DVBE database for all vendors. New contacts are added through daily contact as well as outreach events. The database is comprised of multiple tabs according to business function or specialty. Information will include certification status (current or expired). If current, it will list the date of when their certification will expire.

### ***CBC Marketing Brochure***

CBC staff, LEGO, OSSD, and PAOF staff collaborated and developed a new CBC marketing brochure. The brochure was distributed at recent SB and DVBE Conferences in Sacramento and San Diego.

### ***Future Activities***

CDOP staff is working closely with training staff from our Human Resources Division in developing a manager and supervisor educational module on Disability Sensitivity Training. Implementation of the training is projected for next quarter.

### **Legal Office**

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services, so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

The CalPERS 2010-11 Business Plan includes a specific initiative designed to improve outside counsel diversity. The initiative provides that by June 30, 2011, the Legal Office will expand external legal counsel contracts by creating pools in at least four specialty areas through the addition of firms reflective of California's diverse population.

To achieve the initiative set forth in the 2010-11 Business Plan, the Legal Office will create pools of outside counsel firms in the specialty areas of:

- Health Care Law
- Labor/Employment
- Business Litigation
- Family Law/Community Property

A solicitation for Health Care counsel was released on August 6, 2010. Unfortunately, no proposals were received from law firms that we would consider to be diverse. We will therefore re-solicit for this contract in the future, after we can identify and inform diverse firms practicing in this area of the solicitation.

The solicitation for Labor/Employment counsel had been scheduled to be released at the end of September. Because the solicitation for Health Care counsel did not garner any proposals from diverse firms, we delayed release of the solicitation for Labor/Employment counsel to November in order to give us the opportunity to identify and inform diverse firms practicing in this area. We were able to identify ten such firms and we contacted each of them to notify them of the solicitation. The solicitation was released on November 30, and responses are due in early January 2011.

Our solicitation for Business Litigation counsel is scheduled to be released in December, and for Family Law/Community Property counsel, in January.

## **Investment Office**

### ***Research***

In our March Quarterly Update, we reported that The National Association of Investment Companies (NAIC) had approached CalPERS, CalSTRS, and The New York Common Retirement Fund to participate in their white paper research project to study best practices among each of our respective emerging manager programs. Founded in 1971, the National Association of Investment Companies (NAIC) is an association of largely private equity and venture capital firms and individual investment professionals whose primary focus is investment in an ethnically diverse marketplace.

NAIC engaged James H. Lowry & Associates to author this study. The research team conducted extensive onsite interviews on July 12 – 13, 2010 with INVO senior staff. Afterwards, NAIC also began inviting participation by other plan sponsors who had either newly formed programs, or were contemplating implementation of a new program.

An executive summary of this white paper initiative titled “Best Practices; Emerging Manager Programs” was published in the Fall 2010 issue of The Journal of EDM Finance that was first distributed at the NAIC 40th Annual Convention in October 2010. NAIC launched the inaugural issue of the Journal of EDM Finance in 2005 and publishes it twice yearly. The magazine’s editorial coverage is dedicated to private equity activity in the emerging domestic market or EDM.

Observations about common best practices were summarized as follows:

- Top management commitment and support
- Clearly stated goals and objectives
- A well-structured and well-understood definition of “emerging manager”
- Strong, knowledgeable day-to-day leadership
- Innovative and well-conceived programs
- Experienced strategic partners with proven track records
- Broad outreach to the emerging manager community
- Transparency and effective communication to shareholders and the community

Fall 2010 issue of The Journal of EDM Finance is accessible on NAIC website at <http://www.naicvc.com>.

INVO staff attended the 40<sup>th</sup> Annual Conference and participated on a panel titled NAIC Research Initiatives discussing the summary observations in the whitepaper and whether such studies overall have had an impact on the investment decisions of corporate and public institutional investors. We continue to be engaged in the work of the NAIC and James H. Lowry & Associates as they further broaden out this important research initiative.

Also in our March update, we listed among our other future plans evaluating our diversity reporting in an effort to improve our overall communication. Major focus areas were integrating common terminology and processes for consistently collecting data across asset classes and reporting of our diversity initiatives and emerging manager program results.

Two important interim goals for this project were developing our diversity and inclusion planning framework and improving disclosure about participation by minority, women, and/or disabled veteran (MWDV) owned firms in externally managed portfolios. In our 2008-09 annual diversity report, we provided participation levels for MWDV-owned advisors or general partnerships in aggregate. Attachment A contains more detailed disclosure that will be incorporated into our 2009-10 report and requested by the board in September.

### ***External Outreach***

INVO staff met with New America Alliance (NAA) staff and representatives from its member firms on July 28, 2010 as part of NAA Summer Tour 2010. NAA is an organization of American Latino business leaders committed to Latino empowerment and wealth-building by expanding the forms of capital most crucial for economic advancement - economic capital, human capital and philanthropy. NAA objectives for this tour were to introduce the plan sponsor community to NAA staff and member firms, to share the objectives for NAA's pension fund initiative, to exchange ideas on how NAA can work with the plan sponsor community for advancing participation by its member asset management firms, and for NAA staff and member firms to learn more about the various emerging manager programs. INVO staff also participated on a panel discussing the state of the US pension fund system and participation of Latinos in financial services at NAA's Latino Economic Summit held in Washington, DC from November 17-19.

In October, INVO staff participated on several panels at the Association of Asian American Investment Managers' (AAAIM) 3rd annual conference themed "Building Bridges: Capital Access, Asia and Policy." The event took place in San Francisco, CA. AAAIM was formed in 2006 with the mission to support Asian American investment managers and create a pipeline of the next generation of Asian American financial leaders.

### ***Education***

CalPERS is a longstanding supporter and partner of the Toigo Foundation, an organization aspiring to increase diversity in the financial services industry. CalPERS again hosted "A Day at CalPERS" on November 15, 2010, which allowed Toigo Fellows to explore CalPERS culture and employment opportunities within INVO. This year we also open up this valuable recruitment event to MBA student candidates from other campuses where CalPERS has also been successful in finding new talent for INVO. Participants attended the Investment Committee meeting, topical workshops hosted by INVO staff, and networking opportunities with INVO staff. The event also provided CalPERS staff an opportunity to share their initiatives and discuss employment criteria.

### ***Diverse Director Nomination Initiative (3D)***

As a follow-up to the June 18, 2010 meeting at the Yale Governance Forum, CalPERS and CalSTRS hosted another round of discussions with the Advisory Panel members at the Council of Institutional Investors fall meeting on September 19, 2010, in San Diego, CA. Panel members were presented with the organizational structure for 3D and the director nomination process, which were both warmly accepted. They were also informed that a third party vendor would be selected to develop, construct and manage the database.



**STRATEGIC PLAN:**

This agenda item is in alignment with the following Strategic Goals:

- II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability;
- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies;
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS values; and
- IX. Achieve long term, sustainable, risk-adjusted returns.

**VI. RESULTS/COSTS:**

This agenda item will result in regular program costs only.

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